ANNUAL REPORT/1974

BORDEN, INC.

Executive Offices

Borden, Inc.
277 Park Avenue
New York, New York 10017
Telephone No. (212) 573-4000

Annual Meeting

The Annual Meeting will be held on Wednesday, April 16, 1975, beginning at 11:00 A.M. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey.

Independent Accountants

Price Waterhouse & Co.
Sixty Broad Street
New York, New York 10004

Common Stock Agencies

Transfer Agent
First National City Bank
111 Wall Street
New York, New York 10015

Registrar
Bankers Trust Company
16 Wall Street
New York, New York 10015

Dividend Disbursing Agent
First National City Bank
111 Wall Street
New York, New York 10015

Debenture Trustees

2⅞% and 4⅜% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10017

5¾% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8½% Sinking Fund Debentures
Bank of America, N.T. & S.A.
San Francisco, California 94120

Exchange Listings

Common Stock (Ticker Symbol—BN)
New York Stock Exchange

The Common Stock is currently listed on foreign exchanges in Switzerland and Tokyo, Japan.

New York Stock Exchange
2⅞% Sinking Fund Debentures, due 1981
4⅜% Sinking Fund Debentures, due 1991
5¾% Sinking Fund Debentures, due 1997
8½% Sinking Fund Debentures, due 2004

Date and State of Incorporation

April 24, 1899 — New Jersey

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Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:

Borden, Inc.
Attn. R. Tritsch
Secretary
277 Park Avenue
New York, New York 10017

1974
FINANCIAL HIGHLIGHTS

(In thousands except per share and ratio amounts)

	1974	1973	% Change
Net sales	$3,264,502	$2,553,994	+27.8
Income taxes	75,000	62,600	+19.8
Net income	83,845	72,962	+14.9
Net income per common share and equivalents—			
Primary	2.72	2.37	+14.8
Fully diluted	2.61	2.28	+14.5
Dividends per—Common share	1.25	1.20	+ 4.2
Preferred series A share	.625	.60	+ 4.2
Preferred series B share	1.32	1.32	
Total dividends	38,278	36,453	+ 5.0
Capital expenditures	100,243	76,488	+31.1
Working capital	450,298	346,382	+30.0
Current ratio	2.0:1	1.9:1	
Shareholders' equity	810,431	764,817	+ 6.0
Equity per common share at year end	26.35	24.87	+ 6.0
Outstanding shares at year end—common	30,342	30,045	+ 1.0

QUARTERLY SALES, EARNINGS, DIVIDENDS AND MARKET PRICE DATA

QUARTER	SALES		NET INCOME		NET INCOME PER SHARE - PRIMARY		DIVIDENDS PAID ON COMMON STOCK*		MARKET PRICE RANGE OF COMMON STOCK	
	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973
First Quarter	$ 706,490	$ 575,057	$17,997	$15,641	$ .58	$ .51	$.30	$ .30	$25¼–21	$31¾–23¾
Second Quarter	839,677	644,020	24,968	21,211	.81	.69	.30	.30	24⅞–19¼	24½–20½
Third Quarter	834,679	643,282	22,101	18,177	.72	.59	.325	.30	20 –15¼	24½–19⅞
Fourth Quarter	883,656	691,635	18,779	17,933	.61	.58	.325	.30	20¾–16½	25¼–19
	$3,264,502	$2,553,994	$83,845	$72,962	$2.72	$2.37	$1.25	$1.20		

In 1974, dividends per share on Preferred Stock-Series A were $.15 in each of the first two quarters and $.16¼ in each of the last two quarters compared with $.15 in each quarter during 1973. Dividends on Preferred Stock-Series B were $.33 in each quarter during 1974 and 1973.

MESSAGE TO SHAREHOLDERS AND EMPLOYEES

Borden's record sales and earnings in 1974 were built on corporate strengths and on management disciplines that will become even more important during the year ahead.

For the first time total sales exceeded $3 billion in 1974, and net income and earnings per share were at record levels. In view of performance, the Board of Directors voted in July to increase the quarterly dividend from 30 cents to 32½ cents a share — the first dividend increase since 1966.

We invested some $100 million in new plants and equipment during the year, a 30% increase over the previous year and the largest investment we have yet made in the Company's future. To help generate cash for this and for added working capital, we successfully issued $100 million of 30 year 8½ % Sinking Fund Debentures in April.

The foundation for our record was a balanced mix of food and chemical products whose diversity is a basic strength of the corporation. All four Divisions reported increased operating income. The year just past was exceptionally difficult in the dairy and food business, with rising raw-product and other costs reducing margins. However, the demand for fertilizer and thermoplastics and outstanding performance by our international operations were the principal contributors to a record overall earnings improvement.

The same diversity will be important in 1975, with strengths in one sector balancing weaknesses in others. While it is too early to forecast the demand mix with any confidence, the unprecedented demand for fertilizer is clearly going to hold through 1975, and an expected easing of raw product prices may reduce the pressure on food product margins.

Just as important during 1975 will be the internal management disciplines instituted in 1974 to deal with that year's economic hazards: high interest rates, energy costs three and four times their former level, and widespread shortages of many materials.

To cope with the high cost of money, our executives were directed during the year to further tighten every aspect of cash management, maintaining working capital and paring inventories to the absolute minimum required to service sales and maintain production.

Those same disciplines will be even more critical for the year ahead, when cash management and liquidity will be a key to business vitality.

Access to supplies of scarce materials was an important factor in Borden's 1974 record, and major steps are being undertaken to insure that access in the future. The Board has approved an investment in excess of $50 million in the development of rich new reserves of phosphate rock in Florida which will guarantee a 20-year supply of phosphate for fertilizer and animal feed at present rates of use. The Board has also approved construction of a new formaldehyde plant at our Geismar petrochemical complex which will maintain our position as the leading worldwide supplier of this key chemical building-block. The Geismar formaldehyde plant will have a 250 million pound annual capacity, and is expected to come on stream in November 1976.

On the energy front, it is clear that whatever the world situation, the days of cheap energy are gone forever. A corporate task force assembled to deal with the energy shortages

Members of the Office of the Chairman, from right: Augustine R. Marusi, Chairman and Chief Executive Officer; Eugene J. Sullivan, President; Walter R. Olmstead, Vice Chairman.

of 1973 was given the job of coordinating a company-wide conservation program in 1974, its goal a 10% cut in the rate of use by year's end. The program will be intensified in 1975, with every process under review for changes that could effect permanent fuel savings.

The key to our nation's economic strength during the last quarter of the 20th Century lies in how much and how wisely we invest in productivity today. To a great extent that depends on government policies, and how these policies affect the ability of business to raise capital from earnings and put capital to work where it will be most productive.

In a time of economic stringency, we at Borden have required that our managers re-examine their expenses and proposed capital outlays and trim out anything that is not directly productive. It seems to us that the same kind of review is overdue for government — not only of government spending, but of government requirements for business spending on government-mandated programs.

We approach the year ahead with confidence in the vitality of our Company and in the resilience, energy, and dedication of our managers and employees. They proved themselves in 1974.

Our associates join us in expressing to the men and women of the Borden organization, the members of the Board of Directors, and the shareholders our appreciation for their generous efforts and support during the year.

W. R. Olmstead — A. R. Marusi — E. J. Sullivan

Walter R. Olmstead
Vice Chairman

Augustine R. Marusi
Chairman and Chief Executive Officer

Eugene J. Sullivan
President

February 25, 1975

Board of Directors and Officers

BOARD OF DIRECTORS

COURTNEY C. BROWN
Dean Emeritus
Graduate School of Business
Columbia University

JAMES D. FINLEY
Chairman and Chief Executive Officer
J.P. Stevens & Co., Inc.
(Textiles)

SHELTON FISHER
Chairman and Chief Executive Officer
McGraw-Hill, Inc.
(Publishing)

AUGUSTINE R. MARUSI
Chairman and Chief Executive Officer

BERNARD NEMTZOW
Senior Vice President

WALTER R. OLMSTEAD
Vice Chairman

WILLIAM S. RENCHARD
Chairman of Executive Committee
Chemical Bank

W. THOMAS RICE
Chairman and Chief Executive Officer
Seaboard Coast Line Industries, Inc.
(Railroads)

E. R. ROWLEY
Chairman of Finance Committee
N L Industries, Inc.
(Mineral products)

EUGENE J. SULLIVAN
President

WILLIAM K. WESTWATER
President
Westwater Company
(A business management firm, Columbus, Ohio)

LAWRENCE A. WIEN
Senior member of law firm
Wien, Lane & Malkin

DIRECTORS EMERITI

HAROLD W. COMFORT
Former President

ROY D. WOOSTER
Former Chairman


James D. Milligan


Max A. Minnig


John J. O'Connor


Raymond T. Pryor

PRINCIPAL OFFICERS

AUGUSTINE R. MARUSI
Chairman and Chief Executive Officer

WALTER R. OLMSTEAD
Vice Chairman

EUGENE J. SULLIVAN
President

JAMES D. MILLIGAN
Vice President — Foods Division

MAX A. MINNIG
Vice President — Chemical Division

JOHN J. O'CONNOR
Vice President — International Division

RAYMOND T. PRYOR
Vice President — Dairy and Services Division

BERNARD NEMTZOW
Senior Vice President

FRED J. BOARD
Vice President — Employee Relations

JOHN B. CARNAHAN
Vice President — Distribution

JOHN V. LYNN
Vice President — Engineering

JOHN B. NIMONS
Vice President — Purchasing

LAWRENCE O. DOZA
General Controller

JOSEPH E. MADIGAN
Treasurer

ROBERT G. TRITSCH
Secretary


Bernard Nemtzow


Fred J. Board


John B. Carnahan


John V. Lynn


John B. Nimons


Lawrence O. Doza


Joseph E. Madigan


Robert G. Tritsch

THE COMPANY

Borden, Inc. is primarily engaged in the purchase, manufacture, processing and distribution of a broad range of food, dairy and chemical products, both domestically and in foreign countries. The four major operating divisions of the Company are Borden Foods, Borden Dairy and Services, Borden Chemical and Borden Inc. International. Corporate departments provide certain centralized services for the corporation and all operating units.

BORDEN FOODS—The Foods Division markets a wider variety of food products than any other company. Its product line includes cheese and condensed milk, canned fruits and vegetables, snack foods, sugar, dehydrated foods, portion-controlled frozen meats and seafoods and soft drinks.

No other food marketer offers the consumer a more impressive array of familiar names than those appearing under the Borden brand: Aunt Jane's, Bama, Campfire, Colonial, Comstock, Country Store, Cracker Jack, Deran's, Drake's, Eagle Brand, Flavor House, Greenwood's, Liederkranz, Lite-line, None Such, Old London, ReaLemon, Sacramento, Snow's, Wise, and Wyler's. Eagle Brand sweetened condensed milk is the Company's oldest product, dating back to 1857.

Borden Foods' products are marketed directly, or through food brokers and distributors, to wholesalers, retail stores, food processors, institutions and governmental agencies throughout the United States.

BORDEN DAIRY AND SERVICES—The Dairy and Services Division is responsible for the Company's milk operations in 27 states and ice cream operations in 36 states and the District of Columbia.

It markets a full line of dairy products, including homogenized milk, buttermilk, chocolate drink, cottage cheese, creams, dips, fresh egg nog, sour cream, ice creams, frozen novelties, ice milks, and sherbets. It also markets a line of low-fat dairy products under the Lite-line brand, and a Special Line of milks suited to different life styles.

A fleet of Borden vehicles distributes these products to homes, stores, warehouses, restaurants, schools, hospitals, industrial establishments, and vending operations.

Brand and line extensions were carried out by the Foods Division during the year. Country Store, a brand used successfully on mashed potatoes, was extended to a variety of cheese products, and the famous Cracker Jack brand appeared on peanut butter, complete with toy surprise inside. A full line of chowders was introduced under the Snow's brand.

$1.2 billion volume represented a sharply expanded sales base for the Foods Division.

Foods Division management was streamlined in order to make production, sales, and market planning even more effective.

An aggressive marketing and promotion campaign has made Wyler presweetened powdered soft drink mix number one in the powdered soft drink market. A Wyler recipe book illustrating multiple uses for the soft drink and for other Borden products was given wide distribution to food editors around the country. ReaLemon instituted a national advertising campaign illustrating a variety of uses of its reconstituted lemon juice. Sales of Kava low-acid coffee increased after the coffee became a sponsor of a national radio commentator.

The famous Cracker Jack name was extended to a new Cracker Jack peanut butter, which continues the theme of a surprise inside, with

The Van Wert, Ohio, cheese plant, damaged by fire in 1973, was rebuilt and re-equipped, including the installation of highly automated machinery for the manufacture of Liederkranz cheese, a Borden exclusive, and Camembert.

a prize under the lid of each jar. Television advertising supported the extension of Borden's Country Store label to cheese products in addition to the successful Country Store instant potatoes.

Sacramento saw continued strong demand for their premium tomato products, and introduced a new product called "Tomato Plus," a tasty vegetable-based juice drink fortified with Vitamin C. The distribution of Bama jam and jelly products was extended from the traditional southern markets into the Midwest and the Ohio River Valley.

Borden cheese sales improved, particularly for singly wrapped regular and Lite-line slices, despite continued pressure on consumer budgets. A new product, Cheez Kisses, distributed on a limited basis, gained great acceptance in 1974 with production running at capacity. The Kisses are individually wrapped, bite-size bits of cheese food, and as snacks with great nutritional value have attracted consumers. Work was completed on the rebuilding and re-equipping of the cheese plant in Van Wert, Ohio, which had been damaged

In cooperation with the federal Food and Drug Administration, the Company has established a "self-certification" program at its Chester, S.C., plant, which manufactures Cremora non-dairy creamer. Under the program, Borden agrees to meet manufacturing and sanitary practices specified in writing by FDA and to notify the agency of any departures from them. Above, Borden's Marion Dietrich, resident quality assurance inspector, checks out a silo of Cremora powder prior to its being instantized.

by fire. The plant makes Camembert and the famous Liederkranz cheese, a Borden exclusive.

The operations of Cracker Jack are being streamlined with the installation of a process for the continuous coating of popcorn.

Snow's, known principally as the producer of the nation's prestige clam chowder, is introducing a full line of Snow's chowders, including seafood, shrimp, fish and corn chowders.

The trend towards family desserts that save money and time but still involve some individual preparation has been capitalized on by Comstock, which has added a line of creme pie fillings in five flavors: chocolate, butterscotch, lemon, banana, and coconut. Borden has also added Dessert Starter, a base for a wide variety of desserts home cooks can make for themselves with a minimum of other ingredients.

There was a brisk market during the year for the can-testing equipment produced by the Borden Foods Can and Machinery Division. A new high-speed scanner developed by the division which can detect foreign objects in glass-type containers is now being shown.

1974 saw a substantial rise in sales for Borden's sugar operations, which include a cane refinery in Gramercy, La., and liquid industrial sugar refineries in Belle Glade, Fla., and St. Louis, Mo. Borden's Colonial Brand sugar is widely sold in stores throughout the South and Mid-Atlantic states. Headquarters for the sugar operation were moved to Mobile, Ala., in the heart of the market area, and work was begun on equipment modernization and added warehouse space at the Gramercy refinery.

Consumer acceptance of all Borden food products is being strengthened by a sweeping reform of product labels to provide more consumer information. As label supplies run out on individual products, they are being replaced by new labels bearing complete nutritional data, an open date for freshness, a money-back guarantee and a listing of ingredients. In addition, labels bear the Universal Product Code for use in automated supermarket

Heavy prime-time television advertising support is being given to Lite-line, capitalizing on its distinctive qualities: the flavor of process American cheese but with less fat and fewer calories.

The trend toward family desserts that save time and money but still involve the "home touch" is being met by a new line of Comstock creme pie fillings.

checkout lines. The code will provide the store with continuous inventory data and will give customers register tapes that identify each price with the item.

The nutritional data, backed by a complete nutritional assay of each food product, are carried in a form prescribed by the Food and Drug Administration. They inform consumers about calories, protein, fat, carbohydrates and eight specific minerals and vitamins. The freshness date depends on the product. For perishables, it is generally a date by which the product should be sold; for products with long shelf lives, it is a date by which the product should be used for best quality. Ingredient labeling is being added to many standard products where it is not legally required because ingredients are important to people with allergies and diet problems. The Borden Satisfaction Guarantee is an unconditional money-back guarantee, with proof of purchase, if the customer is not satisfied.

* * *

The world food situation will affect the environment of the food business in 1975. In many countries food will be in very short supply for as far ahead as can be seen, and this shortage will have a continuing impact on world food demand, costs and prices.

The outlook will also be affected by the state of the domestic economy. Borden food products tend to concentrate on basics that are recession-resistant—cheese, canned fruits and vegetables, jams, jellies and peanut butter, sugar, chowders and the like — and the outlook for the Division is generally favorable.

BORDEN

TM

BORDEN CHEMICAL

	1974	1973
Sales (in Millions) .	$701.5	$560.0
% of Total Sales . .	22%	22%
Operating Income (in Millions)	$ 80.3	$ 52.9
% of Total Income from Operations . .	38%	31%

As in 1973, Borden Chemical set new records for sales and operating income. Sales for the Division exceeded $700 million, 25% over 1973. Operating income rose 52% to $80 million, the highest level in the history of the Division, led by fertilizer and thermoplastic operations.

With world fertilizer demand continuing to outstrip the supply, and U. S. demand swelled by the return of some 40 million acres to production, Borden fertilizer sales increased 30% over the previous year. Fertilizer inventories stayed at record low levels.

Sales of feed phosphate soared to record levels in the face of a shortage of alternative sources of phosphorus for animal feeds — a shortage that at one point approached crisis for the nation's poultry and swine producers.

Thermoplastics saw a record increase in sales, with resin customers on allocation during the greater part of 1974. Health problems related to vinyl chloride monomer, reported by several other companies, caused the government to reduce the standard for worker exposure. Court action by an industry association has resulted in an expected effective date of April 1, 1975, for this standard. Borden Chemical will continue to monitor its plants and work toward complying with the regulations. No problem is anticipated with respect to any fabricated Borden PVC product. There is no satisfactory substitute for PVC in many industrial applications. The plastic remains preferable to and more economical than glass, metal, wood or rubber in a wide variety of packaging, manufacturing and structural applications, from molded parts and fabric to irrigation pipe.

An important new internal demand for PVC was generated by the Division's fabric leather operations, which turn out cast fabrics for use by shoe, handbag and luggage manufacturers and operated at capacity during much of 1974.

Resinite film enlarged its position as the leading transparent film for in-store wrapping of meat and increased its share of the similar market for produce. Sales were well ahead of the previous years, not only because more stores moved to Resinite film but because stores began wrapping much more of their produce than before as a guard against costly spoilage.

Despite the slump in new housing starts, sales of Borden wood adhesives (sustained by extensive home remodeling and industrial construction activities) exceeded previous levels. Foundry resins grew during 1974, pushed by a strong durable goods market. On the West Coast, where Borden is the major supplier to the plywood and particle board industry, a major expansion was initiated in Fremont, Calif., to better serve this market.

The key to the Division's ability to respond to the unprecedented demand for fertilizer and heavy demand for thermoplastics in 1974

Bass, shell crackers and speckled perch abound in fresh-water lakes dotting the property of Borden Chemical's phosphate-mining operations near Lakeland, Fla. The lakes are formed from reclaimed mining pits reinforced with dams bulldozed around the perimeters. In addition to serving as recreational areas, they provide seven-eighths of the water used in separating phosphate rock from accompanying clay and sand. Opposite, a dragline known as "Big Daddy" scoops up a 20-cubic-yard bite of phosphate-rich earth. Next, with the phosphate removed from an area, bulldozers reclaim the surrounding land for planting. Finally, fed by rain and underground rivers, a lake appears.

was the availability of basic materials in a time of general industry shortage: phosphate rock from Borden's own Florida mines, and key intermediates, such as ammonia and urea, from the Division's petrochemical complex at Geismar, La. In a move to further strengthen that supply position, the Division began work on additional vinyl chloride monomer capacity at Geismar, and additional PVC capacity at Illiopolis, Ill. The supply of natural gas, the feedstock for the Geismar operation, is the subject of long-term contracts.

1974 was a difficult year for the coated fabrics operation. Supply was interrupted by a five-month strike at the Columbus, Ohio, plant; when the strike ended, demand for the vehicle fabric lines dropped with the slump in the automobile industry, and wallcovering sales plummeted with the decline in housing starts. Several steps were taken during the year to enable the coated fabrics operation to re-establish its strong market position. Completion of an expansion project at Newark, Calif., will enable Borden to serve the West Coast market with great savings in shipping costs. On the East Coast, production of wallcovering material was begun in 1974 by the transfer of equipment to a facility at North Andover, Mass. In another move to make its product more competitive in price-conscious markets, Borden coated fabrics undertook development of a vinyl-coated, paper-based wallcovering line which could compete with paint in cost and durability.

The Chemical Division strengthened its position in the market for high-quality publication inks. To its established line of heat-setting offset inks (above) if added a full line of inks that dry by exposure to ultraviolet energy.

The printing ink division had an extremely good year, strengthening its national distribution and its place in the market for high-quality publication inks.

With concern growing over the occupational health effects of solvents in the nation's thousands of printing plants, Borden Chemical has developed a full line of inks that dry by exposure to ultraviolet energy, cure in less than one second and yield no solvent emissions. Called LUV inks, they reduce energy requirements for drying as well as improving environmental working conditions, and their rapid drying time offers a number of additional production benefits.

The Borden Chemical consumer products operations moved to hold market positions with new products and to upgrade product lines to more profitable items.

During the year, Mystik Tape completed a realignment of its product lines to concentrate on higher-margin, high-performance specialty tapes such as heat resistant tapes for electrical insulation. With continuing strong demand from the machinery, durable goods and sophisticated electronics systems markets, the change was producing clear sales results by the end of the year.

Elmer's line of glues was expanded to include four new water-based specialty adhesives — a China and Glass Cement that sets in seconds and dries crystal clear; a Contact Cement for instant bonding of varied materials; a new Elmer's Fabric Cement that is laundry and dry cleaning safe, and a windshield and window sealer. As part of a major drive for supermarket sales, new Elmer's prepacks have been developed.

Krylon began a major national advertising drive to promote its value as a high quality spray paint that gives the same protection as its competitors but doesn't run after it is sprayed. Lustro-ware introduced a number of new molded plastic products including a collection of modular wall storage units called Wall-Togethers which can be used for display space, extra storage and decoration anywhere in the home.

Sterling Plastics was able to expand its share of the market significantly during the year, particularly against foreign competitors faced with plastic shortages. Sales of Sterling's metric converters jumped sharply, with brisk demand

A number of new consumer products were introduced by the Chemical Division during the year. Top: A full line of plastic desk accessories offered under the Sterling brand. Bottom left: Four water-based specialty adhesives and an arts and crafts glue in the Elmer's line; Center: School supplies from Sterling; Right: A line of Krylon spray paints for color-coding plant equipment in accordance with federal Occupational Safety and Health Act requirements.

not only for the student model, but for specialized models created for professionals and as teaching aids. A new line of Sterling desk accessories, led by a desk organizer, gained excellent acceptance during the year.

The Alex Colman women's fashion line had record sales in 1974, despite a slump in the fashion industry generally, and was hard put to meet continued heavy demand for its sportswear and dress lines. To the Alex Colman line of women's sportswear were added three new lines in 1974: a Mr. Alex line for larger sizes, and two new high-fashion dress lines, R. C. Scott and Cirette. To handle the expanding demand, a new distribution center is being constructed in Los Angeles where Alex Colman is based. The key to Alex Colman's performance during a general depression in the fashion business has been good design, versatility, and price positioning in the mid-range of women's quality apparel.

The Borden Burger fast food operation carried out an investment program designed to change the image of its 83 restaurants to a warmer,

more inviting place for family eating, with new chairs, carpeting on the floor and new outside decor. By year's end the change in atmosphere was showing results in sharply increased sales.

* * *

The outlook for the Chemical Division in 1975 is affected favorably by the continued heavy demand for fertilizer, fueled by the worldwide food shortage and increases in the U. S. in the acreage planted to wheat and corn. There are no signs that this demand will slacken within the next several years.

Cutbacks in petroleum imports and oil price pressures may create individual supply shortages for the chemical industry during 1975. The Chemical Division's growing ability to assure many of its own supplies will minimize this impact in 1975, as it did in 1974.

The great increase in energy costs, the rise in interest rates and skyrocketing material costs compelled the adoption, in 1974, of tight inventory control and cash management policies. These same policies will provide the best counter against cost increases generated by the expected rise in U. S. domestic petroleum prices in 1975.

Resinite enlarged its position as the leading transparent film for in-store wrapping of meat and increased its share of the similar market for produce.

The availability of key intermediate materials, ammonia and urea, from the Company's petrochemical complex at Geismar, La., enabled Borden to respond to the unprecedented demand for fertilizer.

BORDEN INC. INTERNATIONAL

	1974	1973
Sales (in Millions)	$558.9	$424.1
% of Total Sales . .	17%	17%
Operating Income (in Millions)	$ 41.9	$ 31.5
% of Total Income from Operations . .	20%	19%

The International Division again achieved record sales and operating income in 1974. Sales increased to $559 million, up 32% from sales of $424 million in 1973. Operating income increased to nearly $42 million, 33% over the 1973 total.

All facets of the Division's operations contributed to this excellent growth. Chemical and food sales overseas showed a significant increase as a result of new plants and product lines added in 1973-74, combined with more aggressive market penetration in traditional markets. Domestic products exported to foreign markets — foods and chemicals — also enjoyed a marked improvement in sales over 1973 levels.

High inflation rates and concurrent price control in a number of major markets placed extra demands on management. Careful production planning and better plant efficiencies helped to mitigate the increased cost of raw materials and to minimize the effects of shortages in some critical areas.

Latin America — Long range plans to more actively participate in the Latin American food industry, first implemented in 1973, continued in

The universal language of business seems to have no need of an interpreter as Borden Chairman and Chief Executive Officer Augustine R. Marusi chats with Masanori Ono, president of Meiji Milk Products Company, Ltd., at a formal reception in Tokyo marking the listing of Borden common stock on the Tokyo Stock Exchange. Meiji is licensee for Lady Borden ice cream in Japan and a joint partner in Meiji-Borden, Inc., which manufactures and distributes Borden cheeses in Japan.

the past year. The Company's Brazilian food company, Adria, saw a strong demand for its products and additional production capacity for spaghetti, macaroni and noodles came on stream in 1974 with plans calling for further expansion in 1975. These products have become staples in the Brazilian diet and are competitive with more traditional items.

In Mexico, sales of milk, cheese and fruit juices held up well. Several new Borden food products are being considered for manufacture in Latin America, and these will be added to established distribution lines in 1975.

The Latin American chemical operations also achieved record sales in 1974. Alba, a Borden affiliate in Brazil, ran at capacity for products used in the housing, construction, and related industries. New formaldehyde and synthetic resin facilities were activated in Curitiba in Parana State, and Cubatoa in Sao Paulo State, and more capacity in these lines will be added in 1975. A Resinite food packaging film plant was completed in the latter part of the year at Rio Cotia, also in the state of Sao Paulo.

The chemical operations in Mexico ran at full capacity, and even though certain raw material shortages developed, they finished the year with a substantial increase over the preceding year. In Nicaragua, a new formaldehyde plant came on stream, substantially improving Borden's position in the growing Central American market. The Colombian chemical operation expanded its markets by exporting to other countries in the Andean Pact economic bloc.

Latin American countries are seeking to improve their economic and trade imbalances by encouraging the production and consumption of domestic goods. The trend toward fewer imports may make these markets inaccessible and reduce exports of raw materials. As a result, Borden is continuing to review potential chemical and food projects in those countries where there are no Borden affiliates. Much of Borden's success in Latin America is based on the fact that its food and chemical operations manufacture products that are not "luxury" items, but rather are necessities for developing countries attempting to improve their living standards.

The popularity and variety of Borden chemical consumer products in Latin America is evidenced by this display in a store in Sao Paulo, Brazil.

The Company's Brazilian food company, Adria, saw a strong demand for its products. Additional production capacity for spaghetti, macaroni and noodles came on stream in 1974 and further expansion is scheduled for 1975.

Borden's Canadian company celebrated its 75th anniversary throughout the year, marked by a heavy promotional campaign.

Canada — Borden Canada's 1974 sales achieved record levels with significant increases in the dairy, chemical, and foods areas.

The dairy operation, in an effort to improve efficiency, consolidated its distribution system into new and fewer points. The successful mini-pallet ice cream delivery system has now been adopted for milk deliveries.

A new yogurt was introduced in the southern Ontario market late in the year and will be offered in Quebec and western Ontario in 1975.

The entire Lady Borden line, including Lady Borden Boutique ice cream, enjoyed a good year in 1974. Sales of regular Borden ice cream, special flavors particularly, have picked up since the re-introduction of the product in a new package in early fall. Distribution of Elsie Stix multi-packs was expanded with good results. Institution of a national advertising campaign and increased marketing support of Borden Hot Chocolate and Hot Chocolate with Marshmallows increased the sales of both these products.

New manufacturing facilities for specialty chemical products are under construction at West Hill, Ont. These facilities will be completed in early 1975. More formaldehyde and resin capacity is also scheduled for the North Bay, Ont., area.

The market for Insulspray, a foam in-place insulation, continues to grow at a rapid pace, and newly developed wet strength polyamide paper resins show exceptional promise.

Europe — The Common Market founders' hopes for political, economic, and monetary union took a step backward in 1974 as nations sought individual solutions to energy problems, inflation, and the problem of income gaps between and within national borders. European markets are still suffering from the effects of price controls and raw material shortages — notably energy. Despite these troubles, Borden Europe achieved record sales in 1974.

Borden's chemical affiliate in the United Kingdom again had an outstanding year, establishing itself as the market leader in the sale and use of urea-formaldehyde resin for foam insulation of houses. This is an important and expanding market in the current energy crisis. The growing market for packaging film encouraged the Division to make further investments by adding capacity in the U. K., France, and Norway.

Vrancaert, the Company's industrial bakery in Belgium, has captured the major share of its markets, and sales growth has been exceptional. The Weber bakery in West Germany achieved record sales of its famous Christmas "Stollen." During the year production facilities for bread were opened in Saarbrucken and Kassel.

In Spain, Borden's affiliate, Gallina Blanca, increased its sales in soups and bouillon. The Spanish bakery operations continue to grow and are introducing new products based upon Borden's worldwide experience in this field.

Pan America — Operations in Puerto Rico, the Bahamas, Panama and Trinidad all contributed most satisfactory sales during the year.

Finnish Lapland north of the Arctic Circle is one of the more than 130 areas of the world in which Borden products are sold. In front of a campfire, mother and daughter enjoy Borden Instant Chocolate Drink, manufactured at Esbjerg, Denmark.

Included were product lines ranging from re-combined fluid milk and ice cream to processed portion-control meat and seafood products, KLIM powdered whole milk, and almost all other Borden grocery and consumer chemical household items.

Warehousing activities in both Panama and Puerto Rico were expanded during the year to accommodate increasing sales volume. Worldwide marketing of whole milk powder under the internationally renowned trademark, KLIM, falls within the responsibility of this division of Borden Inc. International.

Instant KLIM, introduced in 1973, appeared in new markets throughout 1974 with good consumer acceptance. Sales volume for 1975 is expected to show a substantial increase. In order to accommodate current and potential sales to Latin America, Borden completed a major expansion of its milk processing operation in Mallow, Ireland.

Construction of a can manufacturing plant in Athy, Ireland, intended to supply cans for whole milk powder, was completed at the end of the year. This factory will supply outside customers as well as the Borden facility.

Asia — Sales of chemicals in Australia and The Philippines broke previous records established in 1973.

In Penang, Malaysia, operations began at a new multi-million-dollar industrial resin plant. This operation will supply the important woodworking industries of Malaysia and Indonesia, as well as other areas in Southeast Asia.

Borden had an active year in Japan. Sales of Lady Borden premium grade ice cream in Japan were excellent, and the outlook for 1975 is very good. In partnership with Meiji Milk Products Co., Ltd., Borden cheese lines, which were introduced last year, continued to sell well and distribution channels were expanded throughout the country. The first and primary emphasis has been with individual slices. Despite heavy competition, the future for Borden brand cheeses looks very bright.

In partnership with Hitachi Chemical Co., Ltd., Borden International launched a new plant in Shimodate, Japan, for the manufacture of Resinite packaging film. The main outlets for this product are supermarkets, and Resinite is now positioned to grow with this industry in Japan. Initial sales have been most satisfactory.

A mark of Borden's acceptance in Japan is the fact that in September it became one of only 14 foreign companies to be approved for listing its common stock for trading on the Tokyo Stock Exchange.

Export — Export sales from the United States represented a considerable increase over the records previously established in 1973. All product groups were involved — branded consumer food and chemical household products for both commercial and military channels, industrial chemicals, petrochemicals, fertilizers, wallcoverings, and can testing and fabricating equipment.

In order to increase direct involvement in this important market, sales offices were opened or expanded during the year in Beirut, Lebanon; Guatemala City, Guatemala, and Manila, The Philippines.

CORPORATE ACTIVITIES

Technicians Janet Blakeslee (left) and Lucille Lands conduct bacteriological tests at the new Quality Assurance Laboratory for food and dairy products opened early in the year in Columbus, Ohio. The facility houses microbiological, chemical, and physical laboratories as well as administrative offices for the Quality Assurance Department.

Energy Task Force — A key role in dampening the effect of a major cost increase in 1974 was played by the Energy Task Force established in the previous year to coordinate Borden's management of the energy shortage. The Task Force is chaired by the Vice President, Engineering, and includes members from the four operating Divisions and the staff Departments of Engineering, Distribution, Purchasing, Law and Public Affairs.

The Task Force coordinated a company-wide energy conservation drive, and provided guidance on a wide range of energy matters during a year of uncertainty. Localized shortages of fuel oil, gasoline, and natural gas, a coal strike, a flurry of federal and state regulations, and an intensive conservation program were all effectively handled by the Divisions with minimum adverse impact on production and scheduling.

Conservation efforts were monitored quarterly at each manufacturing location. Due to large increases in energy costs, monitoring was expanded in August to develop unit energy costs through routine cost accounting procedures. In terms of Borden's 10% goal to reduce energy consumed per unit of product, a significant percentage of our plants met or exceeded the goal. The remainder were either already performing at high energy efficiency or their conservation programs were structured to involve engineering or operating improvements beyond the year's end.

The Task Force also elected to return primary responsibility for energy supplies to Division and profit center management. This move reflected stabilization of fuel supplies following the oil embargo and increased reliability of local suppliers. Support was maintained, however, in the areas of fuel allocation and procurement.

Continued effort at conservation management and the realization of previous plans to improve efficiency in energy use are scheduled for 1975. In concert with a consistent federal energy policy, Borden anticipates sustained progress in meeting the energy needs of its operations.

As part of an energy conservation program, wind-deflector screens were installed on the cabs of the Borden trailer-truck fleet. By cutting down wind resistance the screens save fuel and reduce operating costs.

Distribution — The basic component costs of distribution — transportation, warehousing and handling — were substantially higher in 1974. To reduce costs, many package shipments were converted to bulk shipments that could be transported at lower unit prices. The company's fleet of private rail cars hauled a 15% greater volume in 1974 than in 1973. Company-leased chemical tank cars were utilized to secure raw materials from primary sources when these supplies could not be obtained from local distribution centers.

A coordinated train movement of raw materials between two major chemical plants helped to reduce fleet operating costs, and a program was introduced to encourage prompt unloading of supply shipments, enabling maximum use of Borden's transport facilities.

To permit greater volume on individual truck shipments, Borden placed over 100 high cube trailers in service. The Company began installation of truck cab wind deflector screens, which minimize wind resistance, in order to save fuel and reduce operating costs.

In further efforts to increase efficiency, the Company revised delivery schedules and truck routes to eliminate excessive cost operations without sacrificing the necessary level of service needed to meet customer requirements. And through a coordinated control program, the private truck fleets of all Divisions were more fully utilized and empty truck mileage was materially reduced.

An in-depth review of the methods used to communicate shipping information from the field distribution to regional teleprocessing locations was conducted in 1974. As a result of the study, mail service was discontinued and all data are now being transmitted via teletype or TWX. This arrangement provides for better control of inventories.

Company quality assurance representatives made over 200 inspections of public warehouses storing and shipping Borden food products. All food transportation equipment is being quality-checked prior to loading.

Safety — In 1974 Borden's safety record again showed marked improvement in contrast to the statistics showing a national increase in work-related injuries compiled by the National Safety

The Borden Building in downtown Columbus, Ohio, housing the company's national administrative headquarters, was occupied during the summer. Taking up most of the top (34th) floor are the Borden Kitchens, a complex of six home-size units, a kitchen for testing institutional-size recipes, and a Consumer Testing Laboratory for which employees serve as a panel evaluating new and reformulated products. Below: Employees and their families tour the Kitchens during an open house in October.

Council. While the number of employee and vehicle accidents declined, the inflation in settlements, verdict awards and state workmen's compensation benefit levels increased the amount of individual insurance claims.

Implementation of corporate safety goals and objectives was enhanced during the year by the institution of safety workshops, where Division and corporate safety personnel now meet at least four times yearly to identify hazardous exposure problems and discuss workable solutions. A corporate industrial hygienist was added during the year to coordinate the operating Divisions' industrial hygiene and occupational health programs.

Through a continuous program stressing safety performance, all levels of management have achieved an attitude that safety is an integral part of total managerial accountability.

Social Responsibility — The commitment of top management to equal employment opportunity was underlined in 1974 by a series of 18 meetings with all senior divisional and plant officials stressing the need to achieve the Company's Equal Employment Opportunity goals. Borden was one of the first firms to make a manager's EEO performance a factor on which incentive compensation is based. The incentive goals built into individual plans for 1974 were made more specific and strengthened over the previous year, with concrete targets for the employment of women and racial minorities in management, professional and sales positions.

Borden was the first company in Franklin County (Columbus), Ohio, to join with the American Cancer Society in sponsoring a breast-screening and education clinic for its women employees. A film and lecture on breast self-examination and examinations by Cancer Society physicians were offered to the more than 400 women employees at national administrative headquarters.

The year saw an improvement in the employment of racial minorities as a percentage of the United States work force, from 18.5% in 1973 to 20.4% in 1974. The number of women professionals employed by the Company increased as did the share of racial minorities in the top category of officials and managers. Much remains to be done, however, and greater emphasis is being placed on the identification, development and promotion of minorities and women presently employed.

The Company continued to broaden its business relationships with minority entrepreneurs and banks. Some 250 minority vendors sold a total of $9 million in goods and services to Borden in 1974. When the minority purchasing program was begun in 1971, total volume was $3.6 million. The Company worked closely with the Regional Minority Purchasing Council in Columbus, Ohio, and Borden Chairman and Chief Executive Officer A. R. Marusi continued as an active member of the National Minority Purchasing Council.

Borden's social responsibility programs are coordinated through a Minority Affairs Council reporting to the Office of the Chairman. The Council is headed by a corporate officer appointed by the Chairman and Chief Executive Officer. Composed of representatives of the three domestic operating Divisions and all corporate staff departments, the Council includes racial minorities and women.

Employee Relations — Profit centers continued to receive staff support in the areas of employee communications, activities, community programs, and personnel practices.

The Company settled over 100 labor contracts during 1974. The average increase in labor costs, spread over all contracts, was competitive with the national average for manufacturing plants in the United States and Canada. Although Borden had fewer strikes in 1974 than in recent years, there was a five-month work stoppage at the Columbus Coated Fabrics plant in Columbus, Ohio. The inflationary pressures of 1974 were directly related to many of the work stoppages during the year.

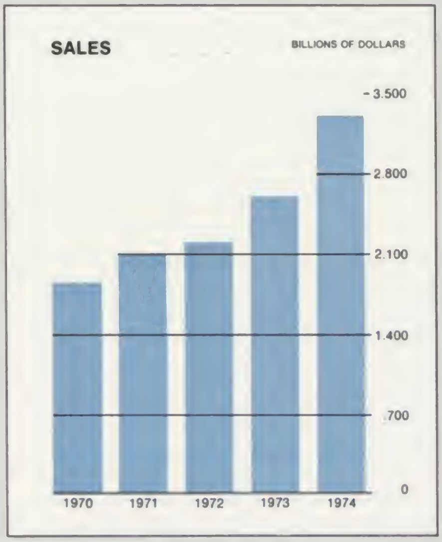
Changes in Officers — Effective May 1, 1974, Bernard Nemtzow was elected Senior Vice President of the Company. Mr. Nemtzow had been Vice President, General Counsel and Secretary. He came to Borden in 1969 as Vice President and General Counsel and was elected a member of the Board of Directors and Corporate Secretary in 1971. As Senior Vice President Mr. Nemtzow retained responsibility for the Law Department and the Corporate Secretary, and assumed responsibility for the General Controller's Office and the Tax Department.

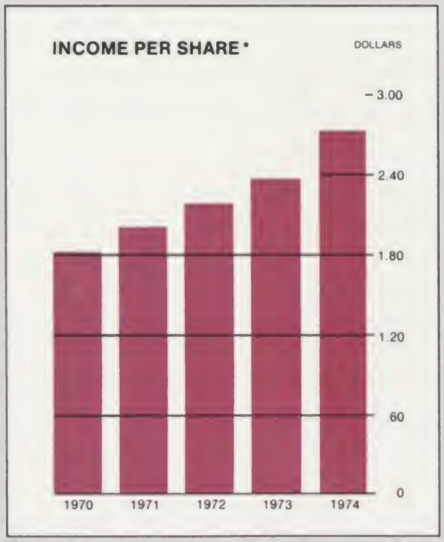
Lawrence O. Doza was elected as General Controller, succeeding John S. Harkins, who resigned effective May 1. Mr. Doza came to Borden as Assistant General Controller in 1972. Prior to joining the Company, he worked for a major public accounting firm.

Robert G. Tritsch was elected to fill the post of Corporate Secretary vacated by Mr. Nemtzow. Mr. Tritsch joined Borden in 1963 and was made Assistant Secretary in 1971.

In February, 1975, James D. Milligan was elected a corporate Vice President and appointed President of the Borden Foods Division, succeeding William L. Roper, who resigned both positions. Mr. Milligan joined the Company as an Assistant General Controller in 1971 and in 1973 was transferred to the Foods Division, where he served successively as Controller, Vice President-Operations, and Senior Vice President-Operations.

FINANCIAL REVIEW





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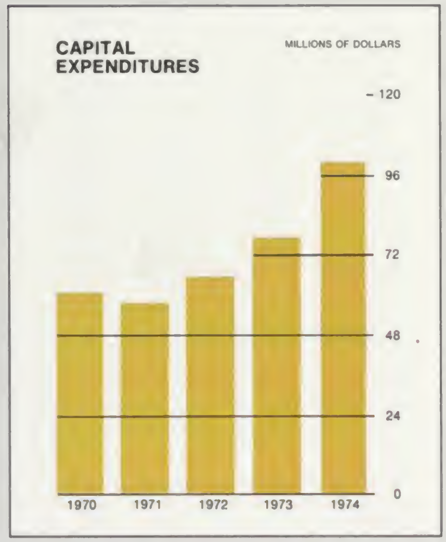


SALES AND EARNINGS

Sales, net income and primary earnings per share in 1974 were the highest in the Company's history. Sales were $3,264,502,000 in 1974 representing an increase of 27.8% over the 1973 record of $2,553,994,000. Net income was $83,845,000 compared to $72,962,000 for an increase of 14.9%. Primary earnings per share increased 14.8% to $2.72 from the previous high of $2.37 in 1973. Fully diluted to reflect two outstanding convertible Eurodollar debenture issues, earnings per share were $2.61 compared with $2.28 in 1973.

Pre-tax income amounted to $158,845,000 up 17.2% from $135,562,000 a year earlier. Federal, foreign, and state and local income taxes totaled $75,000,000 compared with $62,600,000 in 1973. The investment tax credit was $3,700,000 against $3,400,000 in the previous year.

CURRENT ASSETS AND LIABILITIES

During the year, strenuous efforts were undertaken to improve the Company's liquidity position. These activities included a drive to improve substantially our receivable position and to monitor more closely the financial conditions of our customers. Additional efforts were undertaken to maintain stringent inventory controls at all levels of the Company. These programs contributed to the Company's ability to maintain a strong liquidity position through conservation of cash resources, while minimizing short-term borrowings.

CAPITAL EXPENDITURES

Capital expenditures for new and improved facilities amounted to $100,243,000 as compared to $76,488,000 in 1973. Depreciation, depletion and amortization aggregated $50,237,000 against $46,099,000 in the previous year. In addition leases were effected for $18,771,000 and $16,835,000 in 1974 and 1973, respectively, primarily for equipment such as motor vehicles and ice cream cabinets.

DIVIDENDS

The Company completed 76 years of uninterrupted dividends, dating back to its incorporation in 1899, with the payment in December of the 259th consecutive dividend on Common Stock. The Board of Directors on July 30, 1974 increased the quarterly dividend from 30 cents to 32½ cents per share of Common Stock. The Board also increased the quarterly dividend per share of Preferred Stock — Series A from 15 cents to 16¼ cents.

Cash dividends of $38,277,822 were paid on the Company's capital stock in 1974, compared with $36,291,816 in 1973. Dividends on Common Stock were $37,644,269 at $1.25 per share; on Preferred Stock — Series A, $196,979 at 62½ cents per share and on Preferred Stock — Series B, $436,574 at $1.32 per share.

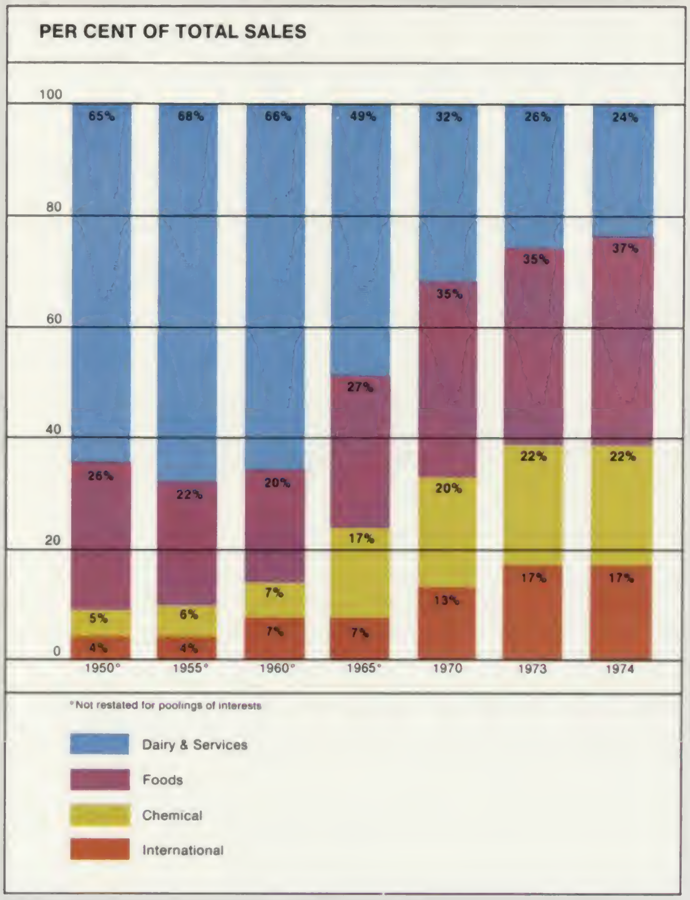
On December 15, one-half of the 315,167 outstanding Series A Preferred shares were converted to Common Stock on a one-for-one basis. The Series B Preferred is convertible at any time into Common Stock at the rate of 1.1 shares of Common for each share of Preferred.

STOCK LISTING

Trading of Borden Common Stock on the Tokyo Stock Exchange began in September 1974. In addition, the Common Stock is listed on foreign exchanges in Zurich, Geneva, Basle, and Lausanne, Switzerland.

DEBENTURE OFFERING

The Company on March 27 successfully offered $100 million in 30 year, 8½ per cent sinking fund debentures at 100¼ per cent of par. It was the Company's first domestic long-term debt offering since 1967. Proceeds were used for capital expenditures, working capital and other general corporate needs.



TRENDS BY BUSINESS AREA AND MANAGEMENT ANALYSIS

A summary of sales and operating income by the Company's four major operating divisions is shown below. Sales and operating income for each of the four divisions exceeded levels of the previous year.

The Foods Division's sales increased 34.6% and operating income increased 6.3% over 1973. Profit margins in 1974 were generally lower than in 1973 because of the unprecedented rise in prices for raw materials, packaging and energy and federal price restrictions during a portion of the year. Higher income in 1974 from sugar operations helped balance added costs borne by sugar-using operations. Federal price restrictions also had an adverse impact on margins in 1973. Both years benefited from higher volume sales of brand name items and the success of new products and product line extensions.

The Dairy and Services Division's sales increased 18.4% over 1973 and operating income increased 8.5%. Margins in this division also suffered in 1974 because of rapidly escalating costs. Margins were also adversely affected during a portion of 1974 and during 1973 because of federal restrictions on price increases. Intensive campaigns during 1974 to monitor cost levels and safety, combined with improved technology through plant modernization and improved distribution methods, have improved efficiency. In addition to these items, the continued turnaround of Northern markets after lifting of the price freeze in September 1973 and improved product mix in various markets have contributed to improved profitability in both periods.

In the Chemical Division, sales in 1974 were 25.3% higher than in 1973 and operating income increased 51.7%. Margins improved substantially in 1974 because of increased volume and improved productivity in all areas but especially in fertilizer and industrial chemical products. Improved market position in Resinite film also contributed to the earnings improvement. Margins improved in 1973 relative to prior years primarily because of increased demand for principal products.

The International Division's operating income of $41,877,000 represents an increase of 32.8% over 1973 on a sales increase of 31.8%. All facets of the division contributed to this growth. The major contributor to the improvement over 1973 was in export sales such as industrial chemicals, petrochemicals, fertilizers and branded consumer products. The increase in 1973 income over 1972 was primarily the result of improvement in export business and growth of the food business in Latin America.

For additional detail see pages 8 through 28.

FIVE YEAR COMPARISON OF SALES AND OPERATING INCOME BY BUSINESS AREA (DOLLARS IN THOUSANDS)

SALES:	1974		1973		1972	1971	1970
Foods	$1,205,485	37%	$ 895,584	35%	$ 809,815	$ 788,083	$ 617,492
Dairy and Services	798,603	24	674,297	26	607,228	589,969	586,213
Chemical	701,476	22	559,973	22	471,057	429,081	404,968
International (including exports)	558,938	17	424,140	17	360,924	296,655	249,854
Total	$3,264,502	100%	$2,553,994	100%	$2,249,024	$2,103,788	$1,858,527
OPERATING INCOME:							
Foods	$ 61,740	29%	$ 58,082	34%	$ 58,076	$ 54,721	$ 43,581
Dairy and Services	28,745	13	26,502	16	25,317	31,037	32,495
Chemical	80,266	38	52,899	31	40,872	34,064	33,064
International (including exports)	41,877	20	31,526	19	27,812	24,323	22,181
Total	212,628	100%	169,009	100%	152,077	144,145	131,321
Other income and expenses not allocable to operations, and taxes	(128,783)		(96,047)		(84,600)	(82,497)	(76,910)
NET INCOME	$ 83,845		$ 72,962		$ 67,477	$ 61,648	$ 54,411

FIVE-YEAR FINANCIAL SUMMARY

Borden, Inc.

(All dollar and share figures in thousands—except market price and per share statistics)

SUMMARY OF EARNINGS	1974	1973	1972	1971	1970
Net sales	$3,264,502	$2,553,994	$2,249,024	$2,103,788	$1,858,527
Cost of goods sold	$2,677,179	$2,073,720	$1,821,141	$1,710,700	$1,499,300
Interest expense	$ 25,636	$ 17,724	$ 16,325	$ 16,204	$ 14,139
Income taxes	$ 75,000	$ 62,600	$ 57,442	$ 52,418	$ 48,405
Net income	$ 83,845	$ 72,962	$ 67,477	$ 61,648	$ 54,411
Net income per common share and equivalents — Primary	$2.72	$2.37	$2.18	$1.99	$1.82
Fully diluted	$2.61	$2.28	$2.13	$1.98	$1.82
Dividends per — Common share	$1.25	$1.20	$1.20	$1.20	$1.20
Preferred series A share	$ .625	$ .60	$ .60	$ .60	
Preferred series B share	$1.32	$1.32	$1.32	$ .78	
Average number of common shares and equivalents outstanding during the year for calculation of —					
Primary earnings per share	30,827	30,810	30,946	30,920	29,968
Fully diluted earnings per share	32,823	32,806	32,288	31,401	29,968
Per cent of net income to sales	2.6%	2.9%	3.0%	2.9%	2.9%
FINANCIAL STATISTICS					
Capital expenditures	$ 100,243	$ 76,488	$ 64,533	$ 58,024	$ 60,431
Inventories	$ 489,403	$ 330,880	$ 284,475	$ 265,680	$ 258,764
Property, plant and equipment	$ 566,610	$ 519,006	$ 482,296	$ 468,105	$ 438,628
Depreciation, depletion and amortization	$ 50,237	$ 46,099	$ 43,899	$ 42,965	$ 39,101
Current assets	$ 883,285	$ 715,673	$ 685,099	$ 623,292	$ 583,439
Current liabilities	$ 432,987	$ 369,291	$ 306,276	$ 256,160	$ 252,971
Working capital	$ 450,298	$ 346,382	$ 378,823	$ 367,132	$ 330,468
Current ratio	2.0:1	1.9:1	2.2:1	2.4:1	2.3:1
Long-term debt	$ 340,800	$ 235,297	$ 250,365	$ 239,676	$ 219,136
Debt-to-equity percent	42%	31%	34%	34%	33%
Shareholders' equity	$ 810,431	$ 764,817	$ 731,383	$ 701,440	$ 657,257
Liquidating value of preferred stock	(10,817)	(17,525)	(26,566)	(29,258)	(9,455)
Common shareholders' equity	$ 799,614	$ 747,292	$ 704,817	$ 672,182	$ 647,802
Equity per common share at year end	$26.35	$24.87	$23.68	$22.63	$21.84
SHAREHOLDERS' DATA					
Outstanding shares at year end — Common	30,342	30,045	29,765	29,707	29,665
Preferred series A	158	315	473	473	473
Preferred series B	265	388	592	686	
Market price of common stock — At year end	$20	$21	$32	$28	$27
Range during year	$15–25	$19–32	$25–32	$24–30	$17–27
Number of common shareholders	67,243	67,552	67,333	70,916	71,886
EMPLOYEES' DATA					
Payrolls	$ 403,800	$ 374,600	$ 369,400	$ 357,000	$ 333,700
Average number of employees	46,700	46,500	46,900	48,000	45,900

CONSOLIDATED STATEMENTS OF INCOME

BORDEN, INC.

Year Ended December 31	1974	1973
NET SALES	$3,264,502,125	$2,553,993,519
COSTS AND EXPENSES:		
Cost of goods sold	2,677,178,840	2,073,719,510
Marketing, distribution and administrative expenses	409,463,497	338,909,484
Other (income) and expense, net	(6,621,395)	(11,921,623)
Interest expense (includes interest expense on leases—$680,040 in 1974 and $1,268,915 in 1973)	25,636,331	17,724,328
Income taxes	75,000,000	62,600,000
	3,180,657,273	2,481,031,699
NET INCOME	$ 83,844,852	$ 72,961,820
Average number of common shares and equivalents outstanding during the year	30,826,916	30,810,296
NET INCOME PER SHARE		
Primary	$ 2.72	$ 2.37
Fully diluted	2.61	2.28
CASH DIVIDENDS PER COMMON SHARE	1.25	1.20

See accompanying Notes To Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

BORDEN, INC.

Year Ended December 31	1974	1973
FINANCIAL RESOURCES PROVIDED		
Operations:		
Net income	$ 83,844,852	$ 72,961,820
Depreciation, depletion and amortization	50,236,884	46,099,153
Deferred income taxes	5,900,000	4,505,077
Other	9,963,456	1,998,456
Total provided from operations	149,945,192	125,564,506
Property disposals	11,023,222	7,768,501
Proceeds from debt financing	109,233,152	6,152,349
Total Resources Provided	270,201,566	139,485,356
FINANCIAL RESOURCES APPLIED		
Cash dividends — Common	37,644,269	35,426,555
Preferred	633,553	865,261
Pooled company		161,012
Reduction in long-term debt	11,560,073	21,219,602
Capital expenditures	100,243,498	76,488,287
Purchases of businesses, net of working capital acquired	8,620,128	27,285,931
Common stock reacquired for treasury		3,289,387
Other	7,584,135	7,190,462
Total Resources Applied	166,285,656	171,926,497
Increase (Decrease) in Working Capital	$103,915,910	$ (32,441,141)
Details of increase (decrease) in working capital:		
Cash and certificates of deposit	$ 6,654,342	$ (61,537,250)
Accounts receivable	2,435,077	45,706,673
Inventories	158,522,748	46,404,847
Current maturities of long-term debt	7,845,332	(3,746,447)
Accounts and drafts payable	(26,965,578)	(35,945,598)
Income taxes	4,868,153	(13,518,913)
Other liabilities	(49,444,164)	(9,804,453)
Increase (Decrease) in Working Capital	$103,915,910	$ (32,441,141)

See accompanying Notes To Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

BORDEN, INC.

ASSETS

December 31	1974	1973
Current Assets		
Cash (including time deposits)	$ 83,038,997	$ 80,324,182
Certificates of deposit	17,000,000	13,060,473
Accounts receivable (less allowance for doubtful accounts — $8,777,715 in 1974 and $5,867,938 in 1973)	293,843,664	291,408,587
Inventories		
Finished and in process goods	296,708,437	214,510,241
Raw materials and supplies	192,694,273	116,369,721
Total Current Assets	883,285,371	715,673,204
Investments and Other Assets		
Investments in and advances to affiliated companies (at cost plus equity in undistributed income)	23,756,744	26,734,258
Miscellaneous investments and receivables (at cost or less)	16,211,414	16,945,615
Deferred charges	22,529,314	17,902,632
	62,497,472	61,582,505
Property and Equipment (at cost)		
Land	41,033,170	41,810,087
Buildings	266,181,146	249,942,304
Machinery and equipment	679,409,501	615,451,856
	986,623,817	907,204,247
Less Accumulated Depreciation	(420,014,303)	(388,198,253)
	566,609,514	519,005,994
Intangibles Resulting from Business Acquisitions		
(principally at cost at dates of acquisition)	146,870,981	152,146,671
	$1,659,263,338	$1,448,408,374

See accompanying Notes To Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

December 31	1974	1973
Current Liabilities		
Current maturities of long-term debt (less debentures repurchased)	$ 10,689,749	$ 18,535,081
Accounts and drafts payable	249,808,779	222,843,201
Income taxes	26,065,089	30,933,242
Other liabilities	146,423,489	96,979,325
Total Current Liabilities	432,987,106	369,290,849
Long-Term Debt	340,799,664	235,297,323
Deferred Income Taxes	57,058,072	51,158,072
Foreign Operations and Other Reserves	4,862,216	15,613,776
Minority Interests in Consolidated Subsidiaries	13,125,692	12,231,793
SHAREHOLDERS' EQUITY		
Capital Stock		
Preferred Stock—no par value		
Authorized 10,000,000 shares		
Issued Series A Convertible—157,584 shares and 315,167 shares respectively (involuntary liquidating value of $3,151,680 or $20.00 per share at December 31, 1974)	590,940	1,181,876
Issued Series B Convertible—265,434 shares and 388,573 shares respectively (involuntary liquidating value of $7,665,734 or $28.88 per share at December 31, 1974)	1,094,915	1,602,863
Common Stock—$3.75 par value		
Authorized 60,000,000 shares		
Issued 30,349,317 shares and 30,111,685 shares respectively	113,809,939	112,918,819
Paid-In Capital	184,057,713	185,472,962
Retained Earnings	511,091,185	465,524,155
	810,644,692	766,700,675
Less Common Stock in Treasury (at cost)—7,558 shares and 66,517 shares respectively	(214,104)	(1,884,114)
Total Shareholders' Equity	810,430,588	764,816,561
	$1,659,263,338	$1,448,408,374

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

BORDEN, INC.

FOR THE TWO YEARS ENDED DECEMBER 31, 1974

	CAPITAL STOCK ISSUED					
	PREFERRED SERIES A	PREFERRED SERIES B	COMMON	PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK
Balance, December 31, 1972	$1,772,812	$2,443,939	$112,127,768	$189,792,896	$429,015,163	$3,769,383
Net income					72,961,820	
Cash dividends—						
Common stock					(35,426,555)	
Preferred series A					(283,650)	
Preferred series B					(581,611)	
Pooled company					(161,012)	
Preferred series A stock converted	(590,936)			(3,871,814)		(4,462,751)
Preferred series B stock converted		(841,076)	791,051	(327,537)		(377,545)
Treasury stock issued for exercised stock options				(120,583)		(334,360)
Stock reacquired for treasury—113,300 shares						3,289,387
Balance, December 31, 1973	1,181,876	1,602,863	112,918,819	185,472,962	465,524,155	1,884,114
Net income					83,844,852	
Cash dividends—						
Common stock					(37,644,269)	
Preferred series A					(196,979)	
Preferred series B					(436,574)	
Preferred series A stock converted	(590,936)		590,936			
Preferred series B stock converted		(507,948)	300,184	(1,361,086)		(1,568,837)
Treasury stock issued for exercised stock options				(54,163)		(101,173)
Balance, December 31, 1974	$ 590,940	$1,094,915	$113,809,939	$184,057,713	$511,091,185	$ 214,104

See accompanying Notes To Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation — The consolidated financial statements include the accounts of Borden, Inc. and all subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income currently. The carrying value of investments in 20% to 50% owned companies approximates the underlying net assets thereof. Investments of less than 20% ownership are carried at cost.

In 1974, the Company changed its method of translating the accounts of foreign subsidiaries so that the effects of changes in worldwide currency relationships in recent years are more clearly reflected in the financial statements. Under the new method, current assets other than inventories, long-term receivables, and all liabilities other than deferred income taxes, are translated at year-end rates of exchange. Inventories, property and equipment and accumulated depreciation, non-current assets other than long-term receivables, and deferred income taxes are translated at historical rates of exchange. In prior years, current assets and current liabilities were translated at year-end rates of exchange, and non-current assets and liabilities were translated at historical rates. Income accounts are generally translated at average rates of exchange, except those revenue and expense items which relate to assets or liabilities translated at historical rates. As in prior years, the net unrealized exchange adjustments arising from translation including those resulting from the change have been charged or credited to the Reserve for Foreign Operations which was established for this purpose. Realized exchange adjustments are charged or credited to income.

The excess cost of investments over net tangible assets of businesses acquired are carried as Intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November 1970 at cost until such time as there may be evidence of limited existence or diminution in value or the term of existence of such value becomes limited. Intangibles arising after October 31, 1970 are being amortized over a forty-year period.

Inventories — Inventories are stated at the lower of cost or market. Cost is determined generally on the average cost and first-in, first-out methods.

Property and Equipment — Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings — 3%; machinery and equipment — 7%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Net profits or losses from normal retirements and disposals are credited or charged to accumulated depreciation, while profits and losses from other retirements and disposals are credited or charged to income.

The Company leases certain plant and equipment under both operating and financing lease agreements (leases covering 75% of economic life of related assets or which reasonably assure lessor recovery of his investment). Certain leases which are in substance installment purchases of the related assets have been capitalized, with the corresponding obligations carried in long-term debt. Payments on leases covering plant and equipment which the Company does not intend to purchase at the expiration of the lease are charged to expense as incurred, whether represented by an operating lease or a financing lease agreement.

Income Taxes — The provision for income taxes includes federal, foreign and state and local taxes currently payable and deferred taxes arising from timing differences between income for financial statement and income tax purposes. These timing deductions principally result from additional deductions available through the use of accelerated methods of depreciation for tax purposes.

The accumulated differences between taxes recognized for financial reporting purposes and those payable to date are shown as deferred income taxes in the Consolidated Balance Sheets.

Investment tax credits are applied as reductions of income taxes in the year realized.

United States income taxes have not been provided on undistributed earnings of foreign subsidiaries because the Company plans to reinvest such earnings abroad and has no present intention to repatriate any significant amount of such funds.

Retirement Plans — Charges to operations under the Company's retirement plans, which cover those employees who are not members of collective bargaining units as well as certain employees who are members of such units, include current service costs, and amortization of prior service costs, generally over a thirty-year period. It is the Company's policy to fund amounts equal to pension costs accrued.

Development and Promotion Expenses — Expenditures for research and development and advertising and promotion are expensed as incurred.

Earnings Per Share — Primary earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents (Series A and B Convertible Preferred Stocks and Stock Options) outstanding during the year of computation.

Fully diluted earnings per share computations are based on the weighted average number of shares of Common Stock and Equivalents outstanding as if the outstanding Convertible Debentures had been converted at the beginning of the period and after giving effect to the elimination of interest expense, less income tax effect, applicable to the Convertible Debentures.

NOTE 2 — FOREIGN SUBSIDIARIES

After translation into United States dollars, net assets of foreign subsidiaries included in the consolidated financial statements were $110,034,000 at December 31, 1974 compared to $98,368,000 at December 31, 1973. Net sales and operating income of international operations, including exports, are presented in the Financial Review section on page 30.

The cumulative amount of foreign earnings on which United States taxes have not been provided aggregated approximately $25,000,000 at December 31, 1974. The Company does not intend to repatriate any significant amount of accumulated foreign earnings.

Translation of foreign currency financial statements resulted in a net exchange loss of $5,681,000 in 1974 (exclusive of $5,657,000 attributable to the change in translation method described in Note 1) compared to a net exchange gain of $1,063,167 in 1973. In accordance with the Company's policy, these amounts were charged or credited to the Reserve for Foreign Operations with the balance of $280,000 by which the 1974 charges exceeded the reserve balance being charged against income.

NOTE 3 — LONG-TERM DEBT, LEASE OBLIGATIONS AND COMMITMENTS

Long-term debt outstanding at December 31, 1974 and 1973 is as follows (dollars in thousands):

	1974		1973	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
Sinking Fund Debentures				
2⅞%, due 1981	$ 31,250		$ 32,500	
7¾%, due 1984	1,000	$ 75	1,075	$ 75
4⅜%, due 1991	32,000	2,000	34,000	2,000
5¾%, due 1997	75,000		75,000	
8½%, due 2004	100,000			
Debentures repurchased	(4,348)	(2,000)	(7,598)	(2,000)
Promissory notes				
5¼%, due 1974				4,900
5⅜%, due 1981	4,500	800	5,300	800
8¼%, due 1985	11,790		6,933	
7⅝%, due 1986	7,860		4,888	
Other borrowings	19,523	5,012	16,348	3,172
Convertible Debentures				
6¾%, due 1991	30,000		30,000	
5%, due 1992	30,000		30,000	
Principal amount of capitalized leases	2,225	4,803	6,851	9,588
	$340,800	$10,690	$235,297	$18,535

The 8¼% and 7⅝% promissory notes due in 1985 and 1986, respectively, are repayable in Swiss Francs; the amounts shown reflect the U.S. dollar equivalent at December 31, 1974. No additional borrowings were made in 1974; the increase reflects the change in method of translation as explained in Notes 1 and 2.

The 6¾% Convertible Debentures (a Eurodollar obligation) are convertible into Common Shares of Borden, Inc. at $28.75 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the original amount plus annually decreasing premiums to 1986.

The 5% Convertible Debentures (a Eurodollar obligation) are convertible into Common Shares of Borden, Inc. at $31.50 a share and after September 1, 1975 are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the original amount plus annually decreasing premiums to 1987.

Aggregate maturities of long-term debt, principal payments on capitalized leases and minimum annual rentals on other leased properties are as follows (dollars in thousands):

	Long-Term Debt**	Capitalized Leases	Minimum Rentals Operating Leases	Minimum Rentals Financing Leases
1975	$ 5,887	$ 4,803	$11,667	$16,247
1976	5,829	2,225	9,724	14,524
1977	5,474		8,220	12,202
1978	8,084		6,921	10,013
1979	8,532		5,840	8,184
1980-1984*	77,398		23,961	13,605
1985-1989*	55,943		3,255	401
1990-1994*	103,453		359	
1995 and beyond*	73,862		212	

*Figures represent combined totals for all years.
**Net of Debentures repurchased.

The present value of non-capitalized financing leases, at a weighted average interest rate of approximately 7.1% and 6.6% for 1974 and 1973, respectively, aggregated $61,700,000 and $53,600,000 at December 31, 1974 and 1973 respectively. These leases primarily cover transportation equipment ($35,700,000) and retail and office space ($26,000,000). Net income would be impacted by less than 1% for 1974 and 1973 if these leases were capitalized rather than being accounted for as leases.

The Company has unused lines of credit for short-term financing needs, aggregating approximately $145,000,000 at December 31, 1974, with interest rates approximating the prime rate in effect at date of use.

The Company was guarantor of loans aggregating approximately $22,000,000 at December 31, 1974.

Pursuant to the arrangements covering the above lease agreements, lines of credit and certain loan guarantees, the Company has agreed to maintain minimum average cash balances with various commercial banks aggregating approximately $17,000,000. The Company attributes no cost to such arrangements as these amounts do not exceed balances which would be required for normal operating needs.

NOTE 4 — INCOME TAXES

A comparative summary of the provisions for federal, foreign and state and local income taxes follows:

	1974	1973
Currently payable		
United States	$55,100,000	$45,978,270
Investment tax credit	(3,700,000)	(3,400,000)
Foreign	8,500,000	8,016,653
State and local	9,200,000	7,500,000
	69,100,000	58,094,923
Deferred		
United States	3,200,000	3,244,378
Foreign	2,700,000	1,260,699
	5,900,000	4,505,077
	$75,000,000	$62,600,000

The deferred provision represents the tax effect of the excess of tax over book depreciation.

Total tax expense represents effective tax rates of 47.2% and 46.2% for 1974 and 1973, respectively, compared to the United States statutory tax rate of 48%. The lower effective tax rates are attributable to the investment tax credit plus other offsetting items such as the differences between foreign and United States rates, federal tax benefit of state and local taxes, and statutory rate differences on capital gains and qualified export operations.

NOTE 5 — RETIREMENT PLANS

The charges to operations under the Company's retirement plans were $8,300,000 in 1974 and $6,800,000 in 1973. The actuarially computed value of vested benefits under these plans as of January 1, 1974 exceeded the total pension fund and balance sheet accruals by approximately $31,100,000.

Operations were charged approximately $5,000,000 in 1974 and $4,190,000 in 1973 for payments to pension trusts on behalf of certain employees covered by collective bargaining units who have not elected to participate in the Company's plans and of retirement allowances paid to former employees under arrangements in effect prior to the inception of the present plans.

Higher costs in 1974 are primarily the result of improved benefits under the Company's retirement plans, effective July 1, 1974.

NOTE 6 — SHAREHOLDERS EQUITY

The 157,584 shares of Preferred Stock – Series A, are entitled to receive annually until January 22, 1976, cumulative dividends per share of one-half the per-share common stock dividend or $.60, whichever is greater. Thereafter the dividend will be determined by the Board of Directors, but in no event will be less than $.60 per share. These shares are convertible into an equal number of common shares during the period December 23, 1975 to January 22, 1976. Shares not converted may be called subsequent to January 22, 1976 and an equal number of common shares issued therefor.

The 265,434 shares of Preferred Stock – Series B, bear an annual cumulative dividend of $1.32, are convertible into 1.1 common shares, and are redeemable, on July 29, 1976 at $42 per share. Thereafter the redemption price will be reduced annually by $1 per share to July 29, 1979.

As of January 1, 1974, 318,569 shares of Common Stock of the Company were reserved for unexercised stock options at prices ranging from $6.37 to $34.32 per share. During 1974, options for 151,000 shares were granted at $19.44 per share and options for 30,579 shares expired or were cancelled. Options for 3,080 shares were exercised, at prices ranging from $6.37 to $23.38 per share, leaving 435,910 shares reserved for unexercised options at prices ranging from $6.37 per share to $30.75 per share as of December 31, 1974. At December 31, 1974, 526,715 shares were available for future grants.

At December 31, 1974, 449,561 shares were reserved for conversion of Preferred Stock – Series A and B. In addition, 1,995,859 shares were reserved for issuance upon conversion of the 6¾% and 5% Convertible Debentures discussed in Note 3 and 34,036 shares were reserved pursuant to the Management Incentive Plan.

NOTE 7 — EARNINGS PER SHARE

The average number of Common Shares and Equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

	1974	1973
Common shares	30,128,122	29,856,533
Convertible Preferred:		
Series A	302,035	459,618
Series B	361,595	466,986
Stock options and incentive compensation	35,164	27,159
Total for primary calculation	30,826,916	30,810,296
Convertible Debentures:		
6¾%	1,043,479	1,043,479
5%	952,380	952,380
Total for fully diluted calculation	32,822,775	32,806,155

NOTE 8 — SUPPLEMENTAL INCOME STATEMENT INFORMATION

Set forth below is a comparative summary of certain income and expense items, the accounting for which is described in Note 1.

	1974	1973
Minority interests in income of consolidated subsidiaries	$ 2,063,000	$ 1,024,000
Depreciation, depletion and amortization	50,237,000	46,099,000
Maintenance and repairs	71,728,000	56,372,000
Amortization of intangible assets	1,065,000	805,000
Advertising and promotion	81,790,000	66,388,000
Research and development	11,831,000	9,912,000
Taxes other than income taxes	47,899,000	44,417,000
Rents —		
Operating leases	18,698,000	14,568,000
Non-capitalized financing leases	15,822,000	14,889,000
Royalties	5,639,000	4,964,000

Price Waterhouse & Co.

SIXTY BROAD STREET, NEW YORK, NEW YORK 10004 212/422-6000

February 25, 1975

Board of Directors and
Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

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